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SIPDIS

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SUBJECT: Sri Lanka Tourism Prospects

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**¶1. (U) Summary:** Despite the deteriorating security situation, tourist arrivals in the first four months of 2006 have increased 25%, according to the Sri Lanka Tourist Board (STB). April arrivals were up 18%. Discussions with tourism sector reps, however, indicate that the Government of Sri Lanka (GSL) uses a broad definition of "tourist" and the real number is only about half the official figure. Since then the security situation has deteriorated further, with the April 25 suicide bomb attempt on the Army Chief in Colombo and other daily incidents in the north and east. While these incidents came at the end of the main winter tourist season, and did not affect that season, tourist arrivals and bookings have slowed quite significantly since then. It is possible that a new marketing campaign will help "re-brand" Sri Lanka, but failure to fully enact recently-passed legislation to give the private sector a greater say in tourism promotion is not helping. End Summary

**¶2. (SBU)** According to the STB, April tourist arrivals increased by 18% to 49,780. Tourist arrivals in the first four months of 2006 rose 25% to 209,312. India was the largest single market, accounting for 20% of arrivals. Europe as a whole accounted for 30%, with tourists coming mostly from the UK and Germany. In 2005, tourist arrivals dipped 3% to 549,000 as a result of the December 2004 Asian tsunami. According to Gihan Perera, Managing Director of

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Aitken Spence Travels, a large inbound tour operator, although the STB reports tourist arrivals around 550,000 annually, actual tourists arriving for holiday number only about 250,000. The STB numbers are inflated due to the inclusion of Sri Lankan expatriates, NGO workers, and Indian transit visitors.

**¶3. (U)** The tourist industry is disappointed as the worsening security situation threatens the industry just as it is recovering from the tsunami. According to sources at John Keells Group and Aitken Spence Group, Sri Lanka's largest hotel and inbound tour operators, current bookings (May-July) have slowed quite significantly and hotel occupancy is lower than in previous years. For instance, occupancy at resort hotels run by John Keells Group has fallen 50% below expectations. Hotels in Colombo city are experiencing a marginal slowdown compared with previous years. While there have been some cancellations, bookings for these off season months are normally made at the last

minute; however, bookings have not come as expected. Both John Keells and Aitken Spence upgraded and re-branded their hotels recently to cater to up-market segments. Rajan Britto, Managing Director of Aitken Spence Group told reporters recently that they have increased rates by 20 to 40% following the re-branding although they had originally planned to increase prices by about 100%. The worsening situation has prevented them from such an increase.

¶4. (SBU) According to Dian Bolton of Walkers Tours, a subsidiary of John Keells group, international tour operators have adopted a wait and see attitude. Currently, the outlook for the next winter looks difficult. While contracts with tour operators for the winter season have been arranged, bookings are only finalized in August. Operators hope the situation will improve by then and that there will be no additional incidents in Colombo to further depress prospects.

¶5. (U) Industry sources attribute the slowdown to the worsening security situation and the failure to market Sri Lanka. According to Perera who is also the past president of the Sri Lanka Inbound Tours Operators Association, Sri Lanka lacks a good marketing campaign to counter the negative image arising out of the incidents in the north and east. Perera said the security situation should not be a major threat as countries like Egypt have a growing industry despite threats to tourists. He praised a recent USAID sponsored promotional campaign in India (part of USAID's tsunami recovery effort) which seeks to brand Sri Lanka

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using the theme "Small Island, Big Trip." Though still too early to predict the outcome, the campaign has helped to boost interest in the Indian market.

¶6. (SBU) Meanwhile, the industry is concerned over attempts

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to block a new tourism law passed in October 2005. The law was expected to reduce government control over the industry and infuse private sector involvement in the tourism regulatory and promotion bodies. The law provides for the creation of a tourism promotion fund (managed by private and public sector representatives) to receive tourism-based taxes. The funds were to be used for promotion campaigns designed to meet industry needs under private sector oversight. However, six months after passage, the Government has not taken any steps to reduce its overall control. Instead, the government-controlled STB continues to siphon off funds, according to industry sources. STB's Chairman, a political appointee, and his administration, with the backing of the Minister of Tourism, have been reluctant to cede control. Failure to enforce the law would further delay reforms in key tourism regulatory and promotion bodies and also delay marketing campaigns crucial for the industries resurgence.

¶7. (SBU) Comment: If the security situation deteriorates and violence spreads outside the north and east, tourism will be one of the first casualties. It is already experiencing cancellations and a major slowdown in bookings. An effective marketing campaign could help build tourist confidence if the war remains geographically restricted.  
Entwistle